

Press Release

Titanium Equipment and Anode Manufacturing Company Private Limited

August 18, 2022



Rating Reaffirmed

Product			Short Term Rating
Bank Loan Ratings	26.00	ACUITE BBB+ Stable Reaffirmed	-
Bank Loan Ratings	64.00	-	ACUITE A2 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	90.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and the short term rating of '**ACUITE A2**' (read as **ACUITE A two**) on the Rs.90.00 Cr bank facilities of Titanium Equipment & Anode Manufacturing Company Private Limited (TEAM) . The outlook is '**Stable**'.

The rating reaffirmation takes into account the sustained growth in TEAM's operating income (OI), further company's financial risk profile is comfortable with healthy gearing, strong coverage metrics and adequate liquidity position. The ratings continue to favourably consider the established presence of TEAM's and the extensive experience of the promoters in the industrial equipment business and established relationships with reputed clients, which ensured strong relationship with customers and regular order inflow, also takes comfort from the revenue diversification. The ratings are, however, constrained by the modest scale of operations, exposure of TEAM's profitability to volatile raw material prices which coupled with the intense competition and also constrained by working capital-intensive nature of operations, given the high inventory and receivable levels.

About the Company

Titanium Equipment & Anode Manufacturing Company Private Limited (TEAM) is part of the TEAM group incorporated in 1975. The company is based in Chennai and its operations are managed by Mr. Suresh Krishnamurthi Rao (Managing Director). The Company is engaged in designing and manufacturing of engineering equipment such as heat exchangers, Reactors, pressure vessels, Pumps & Blowers, Piping and custom designs as per end user requirements. TEAM has also ventured into other business segments such as ultra-filtration and water purification and distribution business. TEAM's engineering and UF Membrane divisions are located at Vandalur, Chengalpet, and Tamilnadu and which is spread across 7 Acres of land. Team is an ASME U, U2 & ISO 9001:2000 Certified Company. Its products are unique and applied in various industries like oil and gas/Pharmaceuticals/fertiliser/chemical/Power/Defense sectors. TEAM was reconstituted as a private limited company from public limited w.e.f. 10th, January 2020.

Analytical Approach

Acuité has taken the standalone view of the business and financial risk profile of TEAM to arrive at the rating.

Key Rating Drivers

Strengths

Experienced promoters and established track records in industrial equipment business, and established relationship with reputed clients.

TEAM, incorporated in 1975, engaged in design and fabrication of engineering equipment, such as high pressure titanium and stainless steel storage tanks/vessels and heat exchangers. In terms of revenue mix, around 75 percent from heat exchangers, 20 percent of UF Membrane and 5 percent of packed drinking water divisions. The long track record of its operations and reputed customer profile and established relationships with its key customers, helped the company in procuring repeat orders from reputed corporates like SRF Limited, Indian Oil Corporation Limited, Hindustan Petroleum Corporation Limited, Bharat Petroleum Corporation Limited, Department Of Atomic Energy, Government Of India, Thyssenkrupp Industrial Solutions India Private Limited, Naval Physical and Oceanographic Laboratory, Research Centre Imarat is a DRDO laboratory among others. Acuité believes that TEAM's business risk profile is expected to improve further over the medium term supported by industry experience and domain knowledge of the management, long-standing relationship with its clientele, geographical reach and long operational track record of operations.

Healthy financial risk profile

TEAM financial profile is healthy as marked by healthy capital structure, healthy coverage indicators and strong liquidity. The networth is healthy at around Rs 91.21 Cr as on March 31, 2022 (Provisional) as against Rs.88.41 Cr as on March 31, 2021, backed by steady accretion to reserves. The capital structure remains healthy with gearing of less than 0.10 times and Total outside Liabilities to Tangible Net Worth (TOL/ TNW) below 0.50 times for past three years ended as on March 31, 2022 (Provisional) due to limited capex requirements and resulting in low external borrowings. The company's coverage indicators are healthy indicated by interest coverage ratio (ICR) 8.46 times and Net Cash Accruals (NCA)/Total Debt (TD) stood healthy at 3.02 times for FY2022 vis-à-vis 3.96 times and 2.17 times respectively in FY2021. Acuité believes that financial risk profile should remain healthy over the medium term, supported by healthy accrual, nil long-term debt, and adequate liquidity with no significant debt-funded capital expenditure plans in near future.

Weaknesses

Working Capital Cycle marked by high GCA days

The company's operations are working capital intensive in nature as reflected by its Gross Current Asset (GCA) days in the range of 260-359 days for past three fiscals ended FY2022 due to high debtor and inventory days given the nature of its operations. The company has high working capital intensity of operations due to high debtor and inventory days, given the nature of its operations. The inventory levels of the company have been historically high owing to the lengthy order execution cycle, which entails multiple inspections at various stages of execution. The debtor days are high due to supply delays that may result from customer inspections. The inventory levels of the company have been historically high owing to the lengthy order execution cycle. GCA days were at high level driven by high inventory and debtor 97-140 days and 104-174 days respectively for past three fiscals ended FY2022. Its creditor's days stood at 60-179 days for past three fiscals ended FY2022. Its working capital limits at about 10 percent over the past six months ended May, 2022. Acuité believes that the working capital operations of the company will remain intense as evident from its high inventory levels; due to the time taken to execute the orders of heavy engineering

equipment's resulting in the large working capital requirement and staggered deliverables.

Modest scale of operations and volatile profitability

The overall scale of operations continue to remain modest with total operating income (TOI) stood in the range of Rs.67.31 Cr to Rs.98.74 crore during FY18 to FY22. TOI of company has increased by ~23% on y-o-y basis and stood at Rs.82.83 Cr in FY22 as against Rs.67.31 Cr in FY21 due to increased demand, and increased customer base. The company's revenue growth would remain dependent on the capex undertaken in the power, fertiliser, and oil and gas sectors, which are its key demand drivers and any slowdown in investments from these sectors would directly impact the revenue growth of TEAM. The EBITDA and PAT margins, declined to 9.84 % and 3.28 % respectively, in FY22 (provisional) vis-à-vis 13.44 % and 5.72% in FY21 due to volatility in the cost of production costs, largely driven by the movements in prices of key raw material. TEAM's raw material cost forms about 47–55% of its operating income and, hence, any adverse fluctuations in the cost of raw materials would have an impact on the company's operating profitability. Acuité believes that turnover growth due to scaling up of operations is likely to keep the profits and cash accruals moderate levels in FY2023.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Scaling up of operations, while achieving sustained improvement in operating margins
- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile and liquidity

Material covenants

None

Liquidity Position: Adequate

TEAM's liquidity is adequate liquidity marked by healthy net cash accruals to its maturing debt obligations and efficient bank utilisation; albeit constrained by high gross current assets (GCA) days. The company generated cash accruals of Rs.4.36 Cr to 10.33 Cr during the last three years through 2020-22, while it's maturing debt obligations were at Rs.0-0.20 Cr over the same period. The cash accruals are estimated to remain around Rs.7 Cr to 9 Cr during 2023-25 while their repayment obligations are miniscule during the same period. Its operations are highly working capital intensive with GCA of about 260-359 days in during last 3 years ending FY2022; comfortable cash accruals led to lower reliance on working capital borrowings at 10 per cent during the last 6 months period ended May 2022. The TEAM maintains unencumbered cash and bank balances of Rs.22.52 Cr as on March 31, 2022. The current ratio stood healthy at 4.65 times as on March 31, 2022. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against its repayment obligations and its internal accruals and liquid surplus to be sufficient to meet its incremental working capital requirements.

Outlook: Stable

Acuité believes that TEAM will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations, experienced management and reputed clientele. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenues and profitability, while maintaining its liquidity position.

Conversely, the outlook may be revised to 'Negative' in case the company registers lower- than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in the working capital cycle.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	82.83	67.31
PAT	Rs. Cr.	2.71	3.85
PAT Margin	(%)	3.28	5.72
Total Debt/Tangible Net Worth	Times	0.02	0.03
PBDIT/Interest	Times	8.46	3.96

Status of non-cooperation with previous CRA (if applicable)

TEAM has not cooperated with CRISIL and India Ratings which has classified it as non-cooperative vide release dated 30-SEP-2021 and 28-July-2022. The reason provided by CRISIL and India Ratings is non-furnishing of information for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
01 Jun 2021	Cash Credit	Long Term	5.00	ACUITE BBB+ Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A2 (Assigned)
	Bank Guarantee	Short Term	15.00	ACUITE A2 (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB+ Stable (Assigned)
	Bank Guarantee	Short Term	20.00	ACUITE A2 (Assigned)
	Cash Credit	Long Term	16.00	ACUITE BBB+ Stable (Assigned)
	Bank Guarantee	Short Term	24.00	ACUITE A2 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A2 Reaffirmed
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE A2 Reaffirmed
ICICI Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A2 Reaffirmed
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB+ Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE BBB+ Stable Reaffirmed
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB+ Stable Reaffirmed
Indian Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2 Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Bhavani sankar Oruganti Assistant Manager-Rating Operations Tel: 022-49294065 bhavanisankar.oruganti@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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